NOVA SCOTIA Finance

The Honourable Peter G. Christie, Minister of Finance

# Forecast Update

**August 31, 2005**

## Overview

The Province of Nova Scotia is projecting a slightly larger surplus than originally budgeted for 2005-2006, as higher revenues and savings in some areas offset additional investments in economic development and various unanticipated costs.

The surplus is expected to grow by $6.5 million to $69.8 million, of which $57.1 million is a legislated surplus to be applied to the debt.

Total revenues are up $8.1 million, largely due to higher provincial own-source revenues.

Net debt servicing costs are estimated to be $12.4 million lower than budgeted. This is attributed to lower-than-expected costs of servicing the debt and early receipt of $830.0 million from the Government of Canada under the Offshore Offset Agreement.

## Fiscal Summary Fiscal 2005–2006

*($ thousands)*

| | Budget | Forecast | Increase (Decrease) from Budget |
|---|---|---|---|
| **CONSOLIDATED FUND** | | | |
| **Revenue** | **6,097,580** | **6,105,713** | **8,133** |
| **Expenses** | | | |
| Net Program Expenses | 5,496,275 | 5,519,017 | 22,742 |
| Pension Valuation Adjustment | 24,379 | 24,379 | – |
| Net Debt Servicing Costs | 897,468 | 885,065 | (12,403) |
| **Total Expenses** | **6,418,122** | **6,428,461** | **10,339** |
| | **(320,542)** | **(322,748)** | **2,206** |
| **Consolidation and Accounting Adjustments for Governmental Units** | **37,191** | **45,871** | **8,680** |
| **Net Income for Government Business Enterprises** | | | |
| Nova Scotia Gaming Corporation | 160,900 | 160,900 | – |
| Nova Scotia Liquor Corporation | 177,070 | 177,070 | – |
| Other Enterprises | 8,664 | 8,664 | – |
| | **346,634** | **346,634** | **–** |
| **Provincial Surplus** | **63,283** | **69,757** | **6,474** |
| **Components of the Debt Reduction Plan** | | | |
| Debt Retirement – Contingency | 4,000 | 4,000 | – |
| Offshore Offset Agreement | 57,100 | 57,100 | – |
| Other | 2,183 | 8,657 | 6,474 |
| | **63,283** | **69,757** | **6,474** |

## Revenues

Total revenues are forecasted to be $8.1 million more than budgeted for 2005-2006, primarily due to higher than anticipated provincial own-source revenues.

Nova Scotia's corporate income tax revenues are now estimated to be up by $11.1 million, reflecting updated information from the federal government. Offshore royalties have increased by $8.0 million as a result of the continued strength of natural gas prices.

These increases are offset, in part, by an $8.4 million decline in Harmonized Sales Tax; there was a small decrease in Finance Canada's 2005 estimate of the HST Declared Revenue Pool.

In addition, the Province is projecting motive fuel tax revenue to drop by $2.6 million as higher prices affect consumption.

For this forecast, no changes are being made to federal transfers or personal income taxes. Data on these sources are typically available in the fall. Current national and provincial data as well as economic trends, however, continue to support budget estimates from these revenue sources.

**Revenue** Fiscal 2005–2006 *($ thousands)*

| | Budget | Forecast | Increase (Decrease) from Budget |
|---|---|---|---|
| **Provincial Revenue Sources** | | | |
| Personal Income Tax | 1,553,568 | 1,553,568 | – |
| Corporate Income Tax | 350,177 | 361,292 | 11,115 |
| Harmonized Sales Tax | 1,068,935 | 1,060,519 | (8,416) |
| Tobacco Tax | 177,567 | 177,567 | – |
| Motive Fuel Taxes | 256,895 | 254,326 | (2,569) |
| Interest Revenues | 72,413 | 72,413 | – |
| Registry of Motor Vehicles | 87,716 | 87,716 | – |
| Royalties - Petroleum | 30,000 | 38,000 | 8,000 |
| Other Provincial Revenues | 239,333 | 239,336 | 3 |
| **Total—Provincial Revenue Sources** | **3,836,604** | **3,844,737** | **8,133** |
| **Federal Revenue Sources** | | | |
| Equalization Payments | 1,343,527 | 1,343,527 | – |
| Offshore Oil and Gas Payments | 57,100 | 57,100 | – |
| Canada Health Transfer | 596,611 | 596,611 | – |
| Canada Social Transfer | 257,408 | 257,408 | – |
| Other Federal Sources | 6,330 | 6,330 | – |
| **Total—Federal Revenue Sources** | **2,260,976** | **2,260,976** | **–** |
| **Total—Revenues** | **6,097,580** | **6,105,713** | **8,133** |

## Net Program Expenses

Program spending is forecasted to be $22.7 million higher than budgeted to cover additional economic development investments, unanticipated costs in emergency measures and health, and expenses for provincial enumeration.

The budget forecast for the Office of Economic Development has been increased by $14.3 million to cover investments in Ocean Nutrition, the purchase of the Lunenburg waterfront lands, and additional business incentives provided under the Industrial Expansion Fund.

An additional $3.3 million is required by Legislative Services to cover the costs of the provincial enumeration.

The Department of Health's forecast has been adjusted upward by $2.8 million to reflect faster recruitment of staff at the Amherst hospital and increased operating costs related to the new beds at the Valley hospital.

The Emergency Measures Organization's forecast has been increased by $1.9 million to cover some of the costs of flooding caused by heavy rains in May 2005. This is the Province's share of funding for flood damage eligible for Government of Canada assistance. The disaster also added $0.3 million in non-eligible costs to the forecast of the Department of Transportation and Public Works.

**Net Program Expenses** Fiscal 2005–2006 *($ thousands)*

| | Budget | Forecast | Increase (Decrease) from Budget |
|---|---|---|---|
| Agriculture and Fisheries | 44,113 | 44,091 | (22) |
| Community Services | 716,174 | 716,174 | – |
| Education and Universities | 1,281,088 | 1,281,383 | 295 |
| Energy | 9,619 | 9,619 | – |
| Environment and Labour | 27,947 | 27,938 | (9) |
| Finance | 16,858 | 16,858 | – |
| Health | 2,559,740 | 2,562,526 | 2,786 |
| Justice | 107,847 | 107,847 | – |
| Natural Resources | 63,098 | 63,096 | (2) |
| Public Service | 183,455 | 202,849 | 19,394 |
| Service Nova Scotia and Municipal Relations | 96,384 | 96,384 | – |
| Tourism, Culture and Heritage | 42,383 | 42,383 | – |
| Transportation and Public Works | 263,954 | 264,254 | 300 |
| Restructuring Costs | 83,615 | 83,615 | – |
| **Total - Net Program Expenses** | **5,496,275** | **5,519,017** | **22,742** |

## Net Debt Servicing Costs

Net Debt Servicing costs are projected to decrease by $12.4 million to $885.1 million compared to the budget estimate of $897.5 million.

This is due to lower short-term interest rates and savings generated by the early receipt, in June 2005, of $830 million from the Government of Canada for the Offshore Offset Accord.

By August 25, 2005, the full $830 million had been used to retire short-term government debt, saving borrowing costs to reissue that debt. Both the Dominion Bond Rating Service and Moody's Investor Service changed their rating outlooks on provincial debt to "positive" in the last two months, citing as a contributing factor the Offshore Offset Agreement monies being paid directly to debt.

The Province of Nova Scotia continues to borrow in domestic capital markets to refinance maturing debt issues. To date, the Department of Finance has capitalized on the current low interest rate environment by issuing two long-term debt issues (for a total of $350 million) at interest rates of under 5 per cent.

## Consolidation and Accounting Adjustments

The consolidation and accounting adjustments summarize the estimated impact on the provincial surplus of governmental units controlled by the Province. These adjustments eliminate transactions between the units in the government reporting entity.

Of the $8.7 million variance in consolidation adjustments, $8.5 million relate to the capital grant to the Waterfront Development Corporation for the purchase of the Lunenburg waterfront lands and the operating grant to Innovacorp in relation to the Ocean Nutrition initiative.

## Economic Performance and Outlook—2005

Nova Scotia's real Gross Domestic Product for 2005 is expected to be in line with the 2.1 per cent growth projected in the budget. This is consistent with the latest survey of private sector economists, who are forecasting a 2.2 per cent growth rate.

While employment growth is slightly slower than expected at budget time, the unemployment rate has been averaging very close to the budget forecast of 8.5 per cent for 2005. Labour income is performing well.

Retail sales growth remains positive and the housing construction market, compared to last year, has been stable.

The relatively high value of the Canadian dollar continues to affect the Nova Scotia economy. Investment in machinery and equipment is up, resulting in a boost to productivity. However, the exchange rate, combined with declining natural gas production, has put downward pressure on the level of export sales.

Manufacturing shipments remain positive, but the rate of growth has been declining. High commodity prices and low interest rates are helping to offset the high exchange rate.

Inflation, as measured by the Consumer Price Index, has been running above expectations, due to high energy prices and an increase in electric utility rates.

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# Forecast Update

**December 14, 2005**

## Overview

The Province of Nova Scotia is forecasting a modest increase in its budget surplus for 2005-2006, as rising offshore gas royalties provide a boost to provincial revenues.

This will allow government to proceed with investments in energy efficiency, low-income heating rebates, and other key programs.

The surplus is expected to rise to $78.4 million, $15.1 million higher than budgeted. The budget includes $57.1 million, which is a legislated surplus to be allocated to the debt.

Total revenues are up $112.9 million, largely due to positive changes in provincial own-source revenues, including an increase in offshore royalties to $119.0 million, $89.0 million more than budgeted.

Net program spending is projected to increase by $69.9 million, including $28.0 million for energy-related investments.

## Fiscal Summary 2005–2006

*($ thousands)*

| | Budget | Forecast | Increase (Decrease) from Budget |
|---|---|---|---|
| **Consolidated Fund** | | | |
| Revenue | **6,097,580** | **6,210,526** | **112,946** |
| Expenses | | | |
| Net Program Expenses | 5,496,275 | 5,566,142 | 69,867 |
| Pension Valuation Adjustment | 24,379 | 52,070 | 27,691 |
| Net Debt Servicing Costs | 897,468 | 900,788 | 3,320 |
| Total Expenses | **6,418,122** | **6,519,000** | **100,878** |
| | **(320,542)** | **(308,474)** | **12,068** |
| **Consolidation and Accounting Adjustments for Governmental Units** | **37,191** | **45,013** | **7,822** |
| **Net Income for Government Business Enterprises** | | | |
| Nova Scotia Gaming Corporation | 160,900 | 155,400 | (5,500) |
| Nova Scotia Liquor Corporation | 177,070 | 177,070 | --- |
| Other Enterprises | 8,664 | 9,392 | 728 |
| | **346,634** | **341,862** | **(4,772)** |
| **Provincial Surplus** | **63,283** | **78,401** | **15,118** |

| **Components of the Debt Reduction Plan** | | | |
|---|---|---|---|
| Debt Retirement - Contingency | 4,000 | 4,000 | --- |
| Offshore Offset Agreement | 57,100 | 57,100 | --- |
| Other | 2,183 | 17,301 | 15,118 |
| | **63,283** | **78,401** | **15,118** |

## Revenues

Total revenues are forecasted to be $112.9 million higher than the 2005-2006 Budget.

Exclusive of any prior years' adjustments, provincial own-source revenues are forecasted to be $85.6 million higher than budget. This is due to adjustments in several areas.

The forecast for Offshore Petroleum Royalties is $89.0 million higher as a result of the continued strength of natural gas prices.

Corporate Income Tax revenues are projected to be up $26.1 million, in part due to stronger national corporate taxable income.

Harmonized Sales Tax revenues are also forecasted to be $9.4 million higher than budget due to higher-than-anticipated national consumer expenditure growth.

These increases are offset, in part, by a $21.4 million decline in Personal Income Tax, primarily as a result of a change in Nova Scotia's share of national taxable income. Motive Fuel Tax revenues are projected to be $12.9 million lower than budget. This reduction is the result of lower consumption of both gasoline and diesel oil, as higher prices affect consumer demand.

In addition, the Province is projecting other provincial source revenues to decrease by $4.6 million. This includes a drop in Large Corporation Tax revenues of $8.9 million, mainly due to a decline in the growth of the asset base and lower revenues from the Levy on Used Vehicles. These decreases are offset by a $6.0 million increase in Offshore Forfeitures revenues.

Prior years' adjustments from provincial sources are $27.7 million. Increases in Personal Income Tax and Harmonized Sales Tax have been offset by a negative adjustment to the Large Corporation Tax.

National levels for equalization have been pre-set for 2005-2006. The equalization panel will report to the federal government in the spring on the future determination of allocation entitlements.

**Revenue** Fiscal 2005–2006 *($ thousands)*

| | Budget | Forecast | Increase (Decrease) from Budget |
|---|---|---|---|
| **Provincial Revenue Sources** | | | |
| Personal Income Tax | 1,553,568 | 1,532,129 | (21,439) |
| Corporate Income Tax | 350,177 | 376,282 | 26,105 |
| Harmonized Sales Tax | 1,068,935 | 1,078,380 | 9,445 |
| Tobacco Tax | 177,567 | 176,151 | (1,416) |
| Motive Fuel Taxes | 256,895 | 243,948 | (12,947) |
| Interest Revenues | 72,413 | 73,850 | 1,437 |
| Registry of Motor Vehicles | 87,716 | 87,758 | 42 |
| Royalties - Petroleum | 30,000 | 119,000 | 89,000 |
| Other Provincial Revenues | 239,333 | 234,720 | (4,613) |
| Prior Years' Adjustments | --- | 27,671 | 27,671 |
| **Total - Provincial Revenue Sources** | **3,836,604** | **3,949,889** | **113,285** |
| **Federal Revenue Sources** | | | |
| Equalization Payments | 1,343,527 | 1,343,527 | --- |
| Offshore Oil and Gas Payments | 57,100 | 57,100 | --- |
| Canada Health Transfer | 578,410 | 578,051 | (359) |
| Canada Social Transfer | 257,408 | 257,306 | (102) |
| Wait Times Reduction Fund | 18,201 | 18,201 | --- |
| Other Federal Sources | 6,330 | 6,330 | --- |
| Prior Years' Adjustments | --- | 122 | 122 |
| **Total - Federal Revenue Sources** | **2,260,976** | **2,260,637** | **(339)** |
| **Total Revenue** | **6,097,580** | **6,210,526** | **112,946** |

## Net Program Expenses

Net Program Expenses are now forecast to be $69.9 million higher than budgeted, an increase of $47.2 million since the August update. Various factors have contributed to the increase.

To help Nova Scotians deal with the high cost of fuel, Government has introduced two programs that are expected to cost $28.0 million. The Department of Energy will spend an additional $10.0 million to implement the Energy Efficiency Plan and an additional $18.0 million is forecast for the Keep the Heat Program under Service Nova Scotia and Municipal Relations.

The Public Service appropriations are forecasting an increase of $20.9 million. The Office of Economic Development is projecting $17.4 million more than budgeted for innovation incentives, economic development grants, and loan valuation allowances for forgivable loans. The Emergency Measures Organization will spend an additional $1.3 million to cover the cost of the May 2005 floods. Another $3.3 million is required in Legislative Services to update the provincial enumeration list.

The Department of Health's forecast has increased by $6.4 million, to cover additional District Health Authority spending on emergency rooms and critical care intensive care units, as well as staffing and operating costs in the Amherst and Valley hospitals.

The Department of Transportation and Public Works forecast is up $5.1 million to cover $2.8 million in highway maintenance and to account for a $1.8 million write down of the Shelburne Youth Centre's assets.

The Department of Justice's forecast has increased by $2.6 million. This will cover this year's projected costs of the Nunn Commission, an increase in the cost of the RCMP contract, and the increase in judges salaries as directed by the Judges Salary Tribunal. The approval of the Hog Industry Support Program has added $1.0 million to Agriculture and Fisheries.

Wage settlements in the health care sector that exceeded the original budget are the primary reason for the net variance of $7.6 million in the Restructuring Costs appropriation. A number of departments have achieved savings that partially offset the increases noted above.

**Net Program Expenses** Fiscal 2005–2006 *($ thousands)*

| | Budget | Forecast | Increase (Decrease) from Budget |
|---|---|---|---|
| Agriculture and Fisheries | 44,113 | 45,097 | 984 |
| Community Services | 716,174 | 716,174 | --- |
| Education and Universities | 1,281,088 | 1,281,037 | (51) |
| Energy | 9,619 | 19,616 | 9,997 |
| Environment and Labour | 27,947 | 26,990 | (957) |
| Finance | 16,858 | 16,135 | (723) |
| Health | 2,559,740 | 2,566,159 | 6,419 |
| Justice | 107,847 | 110,406 | 2,559 |
| Natural Resources | 63,098 | 63,098 | --- |
| Public Service | 183,455 | 204,382 | 20,927 |
| Service Nova Scotia and Municipal Relations | 96,384 | 114,400 | 18,016 |
| Tourism, Culture and Heritage | 42,383 | 42,383 | --- |
| Transportation and Public Works | 263,954 | 269,054 | 5,100 |
| Restructuring Costs | 83,615 | 91,211 | 7,596 |
| **Total - Net Program Expenses** | **5,496,275** | **5,566,142** | **69,867** |

## Net Income for Government Business Enterprises

Net Income from Government Business Enterprises is down $4.8 million overall.

The Nova Scotia Gaming Corporation is now forecasting a reduction of $5.5 million in net income for fiscal 2005-2006. Video Lottery revenues have decreased by $4.6 million and casino revenues are projected to be $1.4 million lower than budget. These decreases are partially offset by a decrease in operating costs of $0.6 million.

The Halifax-Dartmouth Bridge Commission is forecasting an increase in net income of $0.7 million as a result of general operation savings.

## Pension Valuation Adjustment

A negative adjustment of $27.7 million in the Pension Valuation Adjustment is now being forecasted, due to a recent actuarial review. The calculation of pensionable service is tied to certain accounting assumptions. Under generally accepted accounting principles, the current forecast recognizes pension expense to include the cost of pensionable service earned by employees and amortization of experience gains or losses in the pension plans.

## Net Debt Servicing Costs

The latest forecast for Net Debt Servicing Costs reflects a net increase of $3.3 million compared to budget. Interest on pension, retirement and other obligations is expected to grow by $24.7 million due to accounting assumption changes in the pension plans. This is offset by savings in interest on long-term debt of $21.4 million, due to lower short-term interest rates and the receipt of the $830.0 million from the Government of Canada for the Offshore Offset Accord in June 2005.

## Economic Performance and Outlook—2005

Nova Scotia's real Gross Domestic Product (GDP) continues to grow but at a slower pace than projected in the budget. Real GDP growth is forecast to be 1.6 per cent for 2005, which is 0.5 per cent below the rate assumed at budget time.

A slower pace for exports, combined with higher imports, has put downward pressure on GDP growth. This has been further reduced by higher prices.

The high value of the Canadian dollar has a dual impact on the Nova Scotia economy. It dampens exports but supports imports of machinery and equipment, which helps to boost productivity in the long run.

While employment growth is slower than expected at budget time, it is growing at a faster pace than the labour supply. The net result is an unemployment rate of 8.4 per cent for the first eleven months of 2005, which is slightly below the budget projection. Labour income is performing well, reflecting, to some degree, the increase in military pay.

Retail sales growth remains healthy and residential capital investment is stronger than expected. While the budget projection had anticipated a decline in residential capital spending, it grew at a moderate rate of 3.9 per cent during the past three quarters. This growth was led by a 5.8 per cent increase in expenditures for home renovations.

Manufacturing shipments remain positive with the help of high commodity prices and low interest rates.

Inflation, as measured by the Consumer Price Index, has been running above the budget projection due to high energy prices and an increase in electric utility rates.

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**www.gov.ns.ca/finance**